

ST. CLAIR SHORES HOUSING COMMISSION
ST. CLAIR SHORES, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name St. Clair Shores Housing Commission	County Macomb
Fiscal Year End December 31, 2006	Opinion Date March 29, 2007	Date Audit Report Submitted to State June 7, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Report of compliance and Internal Controls	
Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC		Telephone Number (231) 946-8930	
Street Address 731 S. Garfield Avenue		City Traverse City	State MI
		Zip 49686	
Authorizing CPA Signature 		Printed Name Barry E. Gaudette, CPA	License Number 11050

ST. CLAIR SHORES HOUSING COMMISSION
TABLE OF CONTENTS
March 31, 2006

	<u>Page</u>
<u>INDEPENDENT AUDITOR'S REPORT</u>	1-2
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)</u>	3-10
<u>FINANCIAL STATEMENTS</u>	
Basic Financial Statements:	
Fund Financial Statements:	
Proprietary Fund:	
Statement of Net Assets	11-12
Statement of Revenues, Expenses, and Changes in Net Assets	13
Statement of Cash Flows	14-15
Notes to Financial Statements	16-26
 <u>SUPPLEMENTAL INFORMATION</u>	
Fund Financial Statements:	
Proprietary Fund:	
Combining Statement of Net Assets By Program	27-28
Combining Statement of Revenues, Expenses, and and Changes in Net Assets By Program	29
Combining Statement of Cash Flows By Program	30-31
Schedule of Expenditures of Federal Awards and Notes to the Schedule of Federal Awards	32
Financial Data Schedule	33-36
 REPORTS ON INTERNAL CONTROL AND COMPLIANCE	37-40
Schedule of Findings and Questioned Costs	41-42
Summary Schedule of Prior Audit Findings	43
Adjusting Journal Entries	44

INTRODUCTION

Independent Auditor's Report

Board of Commissioners
St. Clair Shores Housing Commission
St. Clair Shores, Michigan

I have audited the accompanying financial statements of the business-type activities of St. Clair Shores Housing Commission, Michigan, a component unit of the City of St. Clair Shores, as of and for the year ended December 31, 2006, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of St. Clair Shores Housing Commission, Michigan, as of December 31, 2006, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

St. Clair Shores Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated March 29, 2007, on my consideration of St. Clair Shores Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 10, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise St. Clair Shores Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of St. Clair Shores Housing Commission, Michigan. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Barry E. Landolt, CPA, PC

March 29, 2007

**St. Clair Shores Housing Commission
1000 Blossom Heath Boulevard
St. Clair Shores, MI 48080**

Mary A. Walsh, Executive Director

As management of the St. Clair Shores Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the St. Clair Shores Housing Commission's financial activities for the FYE 12/31/06. This discussion and analysis letter of the St. Clair Shores Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

The combined financial statements reflect all of the Commission's federally funded programs and activities in one place. The Commission reports all its activities and programs using the Enterprise Fund type model. HUD encourages PHAs to use this accounting method as it is normally used to account for "business-type activities" - activities similar to those found in the private sector. Enterprise Fund types use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenditures may be reported as such even though no cash transaction has actually taken place.

Overview of the Financial Statements

This annual report contains this *Management & Discussion Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. The Commission's financial statements are presented as fund financial statements because the Commission only has proprietary funds.

Required Financial Statements

The Statement of Net Assets includes the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission creditors (liabilities). It also provides the basis for evaluating the liquidity and financial flexibility of the Commission.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established Uniform Financial Reporting Standards that require Housing Commissions to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) and is required to be included in the audit reporting package.

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Enterprise fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

St. Clair Shores Housing Commission Programs:

Low Rent Public Housing: Under this program, the Housing Commission rents units that it owns to low-income elderly and family households. This program is operated under an Annual Contributions Contract with HUD. HUD provides Operating Subsidies to enable the Housing Commission to lease these units at a rate that is based on 30% of the household income.

Capital Fund Program: Under this program, the Housing Commission is awarded funds each year to use for Capital Needs. The Housing Commission also has the ability to use up to 20% of these funds, if need be, to supplement Operating Subsidies. This program is the primary funding source for physical improvements to its properties.

Section 8 Housing Choice Voucher Program: Under this program, the Housing Commission administers contracts with independent landlords to provide housing for low-income households. These units are not owned by the Housing Commission. The Housing Commission subsidizes the family's rent via a "Housing Assistance Payment" made directly to the landlord. HUD provides subsidy to the Housing Commission to enable the Housing Commission to set the rental rates at 30% of a

participant's income.

Entity-Wide Financial Highlights:

The following Federal Assistance was received during FYE 12/31/06:

	<u>FYE</u> <u>12/31/06</u>	<u>FYE</u> <u>12/31/05</u>	<u>Dollar</u> <u>Change</u>	<u>Per Cent</u> <u>Change</u>
Public Housing Operating Subsidy	235,410	199,392	36,018	18.06%
Capital Fund Program Grants	286,403	235,216	51,187	21.76%
Sec. 8 Voucher	529,900	526,590	3,310	0.63%
Total	<u>1,051,713</u>	<u>961,198</u>	<u>90,515</u>	<u>9.42%</u>

Please note that in the Capital Fund Program the expenditures during 2006 were equal to the Federal Assistance received during 2006 as noted in the above chart.

The subsidy for Section 8 remained relatively stable. The subsidy for Public Housing increased mainly due to increased utility costs. The increase in the Capital Fund Program was due to the fact that work projects during FYE 12/31/06 progressed along more rapidly than the prior year, thus utilizing more of our Capital Fund Program funding in FYE 12/31/06 than in FYE 12/31/05.

The following represents changes in the Balance Sheet:

	<u>FYE</u> <u>12/31/06</u>	<u>FYE</u> <u>12/31/05</u>	<u>Dollar</u> <u>Change</u>	<u>Per Cent</u> <u>Change</u>
Cash & Investments	1,157,088	1,137,202	19,886)	1.75%
Total Current Assets	1,234,682	1,198,041	36,641	3.06%
Fixed Assets, Net of Depreciation	5,462,175	5,674,675	(212,500)	-3.74%
Total Liabilities	245,868	243,286	2,582	1.06%
Total Equity/Net Assets	6,450,989	6,629,430	(178,441)	-2.69%

Cash and investments stayed relatively stable, increasing by just 1.75%.

Total Current Assets increased by just 3.06%; most of the increase can be attributed to increases in HUD accounts receivable and accrued interest receivable.

Fixed Assets increased by \$183,085; this increase represents several capital projects funded through the Capital Fund Program (see details later in this report). Although Fixed Assets increased by \$183,085, this was more than offset by depreciation charges of \$400,406 less disposal of equipment in the amount of \$4,820.00, resulting in the net decrease stated in the above table.

Total Liabilities stayed stable, increasing by just 1.06%.

Total Net Assets is comprised of two components: Invested in Capital Assets, which mirrors the decrease in Fixed Assets, Net of Depreciation as explained above. The other component is Unrestricted Net Assets, or what used to be called Operating Reserves. This figure increased due to the Operating Income of \$54,257 generated by the Public Housing Program for FYE 12/31/06.

The following schedule compares the Revenues and Expenses for the current and prior fiscal years:

Statement of Revenues, Expenses, and Changes in Net Assets

	<u>FYE</u> <u>12/31/06</u>	<u>FYE</u> <u>12/31/05</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Revenues:				
Tenant Revenue	804,938	756,148	48,790	6.5%
Other Revenue	<u>48,442</u>	<u>33,594</u>	<u>14,848</u>	44.2%
Total PHA generated Revenue	853,380	789,742	63,638	8.1%
Operating Subsidy/Soft Cost Revenue	863,807	822,846	40,961	5.0%
Capital Grants(Hard costs)	<u>187,906</u>	<u>138,352</u>	<u>49,554</u>	35.8%
Total Revenue	<u>1,905,093</u>	<u>1,750,940</u>	<u>154,153</u>	8.8%
Expenses:				
Administrative	406,512	387,128	19,384	5.0%
Tenant Services	8,008	9,646	(1,638)	-17.0%
Utilities	219,520	230,127	(10,607)	- 4.6%
Maintenance	422,612	405,785	16,827	4.1%
General	107,670	100,970	6,700	6.6%
Extraordinary maintenance	17,259	0	17,259	
Casualty Losses	129	0	129	
Housing Assistance Payments	488,302	471,549	16,753	3.6%
Depreciation	<u>400,406</u>	<u>385,688</u>	<u>14,718</u>	3.8%
Total Expenses	<u>2,070,418</u>	<u>1,990,893</u>	<u>79,525</u>	4.0%
Net Increase (Decrease)	(165,325) (239,953)			

Revenues:

St. Clair Shores Housing Commission's primary revenue sources are subsidies and grants received by HUD. Please not that Capital Fund Program grants are classified as either soft cost revenue or hard cost revenue. Revenue received from HUD in FYE 12/31/06 for Public Housing and for Sec. 8 increased from FYE 12/31/05 to 12/31/06. For FYE 12/31/06, revenue generated by the Commission accounted for \$853,380 (or 40% of total revenue), while HUD contributions accounted for \$1,051,713 (or 55% of total revenue), while HUD

contributions accounted for \$1,051,713 (or 55% of total revenue). Income generated by the Housing Commission increased in all revenue areas.

Expenses:

Total Expenses for FYE 12/31/05 were \$1,990,893 while for FYE 12/31/06 the total was \$2,070,418. This represents just a 4.0% increase in our Operating Costs, an amount that can be substantially attributed to inflation.

Net Increase/Decrease:

The net increase/decrease in the above table includes the effect of both depreciation charges and Hard Cost Capital Revenues. It should be noted that neither of these two line items flow into the Unrestricted Net Asset Accounts (Retained Earnings) and should not be taken into consideration when analyzing performance. That said, if we eliminate the effect of these two accounts, the net increase to our Unrestricted Net Asset accounts for FYE 12/31/05 was \$7,383 while the net increase for FYE 12/31/06 was \$47,175. The substantial increase to our bottom line was fueled primarily by the increased income generated by both our Public Housing Program (dwelling rental charges, interest income, and other income) and HUD subsidies.

Budget Analysis:

A Low Rent Public Housing Operating Budget for FYE 12/31/06 was presented to and approved by the Board of Commissioners. We had no reason to amend the budget during the fiscal year. Actual results were in line with budgeted amounts.

Entity-Wide Operational Highlights:

The St. Clair Shores Housing Commission provided the following housing for low-income elderly and low-income families:

	<u>FYE 12/31/06</u>	<u>FYE 12/31/05</u>
Low Rent Public Housing	250	250
Sec. 8 Housing Choice Voucher	90	90

During FYE 12/31/06, St. Clair Shores Housing Commission maintained a lease-up rate of 99.8% in its Public Housing Program and a lease-up rate of 100.0% in its Section 8 program. These lease-up rates are well in excess of HUD guidelines.

During FYE 12/31/06, our Capital Fund Program work projects included:

- * Senior buildings: We upgraded our office furniture and fixtures; masonry and brick cleaning; dwelling unit

upgrades included flooring, painting, building system upgrades, HVAC upgrades, and upgrades to the fire protective system.

- * Scattered Site Housing: The main projects at our scattered site houses were roofing and window upgrades; electrical upgrades; furnace replacements; and various other miscellaneous upgrades to the dwelling units.

Economic Factors and Next Year's Budget and Rates

The Housing Commission is primarily dependent upon HUD for the funding of operations as well as capital needs. Therefore, the Housing Commission is affected more by the Federal Budget than by local economic conditions. The funding of programs could be significantly affected by the Federal Budget.

Asset Management Operating Fund Rule

The new Operating Fund rule requires Public Housing Agencies (PHAs) with 250 or more units to convert to asset management. The Department is currently developing detailed instructions associated with the implementation of these new asset management requirements (Project Based Accounting).

PHAs with 250 or more units must convert to asset management; and PHAs with fewer than 250 units can voluntarily convert. Below is a brief description of the implementation as June 2007.

Provisions of the OFND rule apply to Public Housing Agencies (PHAs) of all sizes.

In the long term, asset management is meant to include a broader strategic examination of a PHAs portfolio and its position with the local affordable housing market, considering such strategies as re-investment, refinancing, disposition, or replacement. In the near term, however, the Department does utilize the basic structure (building blocks) of asset-based funding, accounting, and performance monitoring.

Operating Fund (OFND):

Project-based funding: In calendar year (CY) 2007, PHAs will begin receiving operating subsidy under the new Operating Fund formula. A major component of that formula is the Project Expense Level (PEL).

The PEL is similar in concept to the current allowable expense level (AEL), except that it is computed at a project level.

For CY 2007, these PELs will be aggregated into an agency-wide figure, known as the Weighted Average Project Expense Level, or WAPEL.

The WAPEL is a formula generated by the Harvard Cost Study and involves constant, variables, and coefficients based on property characteristics, occupancy types, neighborhood poverty rates, location, property size, age, and unit sizes.

In CY 2007, HUD implements the new Operating Fund Formula, based on the Harvard Cost Study and negotiated rulemaking. In this first year of implementation, HUD continues to fund at the "agency level". In CY 2008, HUD makes funding assignments at the project level.

Formula estimates show the St. Clair Shores Housing Commission to be a "gainer" under the new formula at approximately \$5,000 a month at this time (2007). Specific amounts are difficult to foresee as the formula for gainers and decliners will be implemented in transitional funding phases (50% for CY'07 and 100% in CY'08); while coupled with operating subsidies only being awarded on a percentage basis (current CY'07 being funded at 82% of eligibility). The funding forecast for the St. Clair Shores Housing Commission, however, does show an increase to operating subsidy revenues overall.

Project-Based Model:

The final rule requires PHAs to manage their properties according to an asset (project-based) management model. Recognizing that the current project numbering system does not necessarily reflect appropriate groupings of buildings for management purposes, the rule provides that projects be regrouped under Asset Management Project (AMP) numbers. AMP numbers are for designating a grouping of various building into a new operating entity called an Asset Management Project.

The St. Clair Shores Housing Commission has submitted and been approved for one(1) AMP number.

Project-based budgeting: PHAs will be required to prepare project-based budgets, per AMP number, beginning with fiscal years July 1, 2007 and after. The St. Clair Shores Housing Commission's first Project-based budget will be effective January 1, 2008. It will include and exercise the new management fees schedule, but will not be held to compliant levels until the following year (fiscal year beginning January 1, 2009).

Project-based accounting: PHAs will be required to submit to HUD year-end financial statement on each project (AMP number). These financial statements will include revenues, expenses, and balance sheet items. Further, in accounting for project costs, PHAs will only be able to charge projects for services actually received. For example, PHAs will not be permitted to simply spread the cost of central maintenance across properties. Moreover, any overhead fees, and any fees for centrally-provided property management services, must be "reasonable", i.e., these costs must not exceed

what other efficient operators would incur for those same services in the local market.

The rule will begin to hold this Agency accountable from an accounting standpoint effective fiscal year beginning January 1, 2009 and must certify full compliance no later than December 31, 2010. Independent assessors will verify the compliant certifications of a Housing Authority.

Project-based management: Under the new rule, PHAs must arrange property management services in the best interest of each project. For example, a project must receive the same level of service from a central landscaping crew as could be obtained through the market or by handling the work with on-site staff. Additionally, PHAs must assign to each project (AMP number) management personnel, i.e., a housing manager with primary responsibility for the day-to-day operation of that project.

Project-based performance assessment: The Department will revise the Public Housing Assessment System (PHAS) to emphasize project-based performance monitoring and evaluation. Currently, PHAs examines mostly PHA-wide and not project-specific activities. Each project (AMP number) will be evaluated not just on its physical condition but based on its financial and management performance as well. A central part of this new performance measurement structure will be a system of on-site management reviews of each project (preferable annually or bi-annually).

The St. Clair Shores Housing Commission will be operating under one AMP number (project) under the project-based model. Therefore, most aspects of the project-based structure will not change current practices. The most notable effects on this Agency will be budgeting and operating under the fee-based management structure and accounting through a Central Cost Center.

Request for Information

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions or comments concerning any of the information contained in this report or request for additional information should be directed to:

Mary A. Walsh, Executive Director
St. Clair Shores Housing Commission
1000 Blossom Heath Boulevard
St. Clair Shores, MI 48080

FINANCIAL STATEMENTS

ST. CLAIR SHORES HOUSING COMMISSION

STATEMENT OF NET ASSETS

December 31, 2006

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ASSETS

Current Assets:

Cash and cash equivalents	\$ 222,911
Accounts receivable-HUD	20,279
Accounts receivable-tenants	4,746
Allowance for doubtful accounts	(3,819)
Accrued interest receivable	12,694
Investments	934,177
Prepaid expenses	26,669
Inventories	<u>17,025</u>

Total Current Assets	<u>1,234,682</u>
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Capital Assets:

Land	526,000
Buildings	7,023,857
Equipment	231,978
Building improvements	<u>3,594,911</u>
	11,376,746
Less: accumulated depreciation	<u>(5,914,571)</u>

Net Capital Assets	<u>5,462,175</u>
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Total Assets	<u>\$ 6,696,857</u>
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See notes to financial statements

ST. CLAIR SHORES HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
December 31, 2006

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LIABILITIES and NET ASSETS

Current Liabilities:

Accounts payable	\$ 71,764
Tenant security deposit liability	73,677
Accrued expenses	31,990
Deferred revenues	1,118
Other current liabilities	<u>42,248</u>

Total Current Liabilities 220,797

Noncurrent liabilities:

Accrued compensated absences	<u>25,071</u>
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Total Liabilities 245,868

Net Assets:

Invested in capital assets	5,462,175
Unrestricted net assets	<u>988,814</u>

Total Net Assets 6,450,989

Total Liabilities and Net Assets \$ 6,696,857

See notes to financial statements

ST. CLAIR SHORES HOUSING COMMISSION
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS

Year Ended December 31, 2006

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OPERATING REVENUES:

Dwelling rent	\$ 794,084
Nondwelling rent	<u>10,854</u>

Total operating revenues	<u>804,938</u>
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OPERATING EXPENSES:

Administration	406,512
Tenant services	8,008
Utilities	219,520
Ordinary maintenance and operation	422,612
General expenses	107,670
Housing assistance payments	488,302
Extraordinary maintenance	17,259
Casualty losses	129
Depreciation	<u>400,406</u>

Total operating expenses	<u>2,070,418</u>
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Operating income(loss)	<u>(1,265,480)</u>
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NONOPERATING REVENUES:

Investment interest income	37,740
Fraud recovery	1,185
Other income	9,517
Capital grants	187,906
Operating grants	<u>863,807</u>

Total nonoperating revenues	<u>1,100,155</u>
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Change in net assets	(165,325)
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Prior period adjustments, equity transfers and correction of errors	(13,117)
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Net assets, beginning	<u>6,629,431</u>
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Net assets, ending	<u>\$ 6,450,989</u>
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See notes to financial statements

ST. CLAIR SHORES HOUSING COMMISSION
STATEMENT OF CASH FLOWS
Year Ended December 31, 2006
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CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling and nondwelling rents	\$ 802,393
Cash payments to other suppliers of goods and services	(1,000,371)
Cash payments to employees for services	(630,796)
Cash payments for in lieu of taxes	<u>(49,938)</u>
Net cash (used) by operating activities	<u>(878,712)</u>

CASH FLOWS FROM NONCAPITAL

FINANCING ACTIVITIES:

Tenant security deposits	3,830
Operating grants	851,573
Fraud recovery	1,185
Other revenue	<u>9,517</u>
Net cash provided by noncapital financing activities	<u>866,105</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Capital grants	187,906
Payments for capital acquisitions	<u>(187,546)</u>
Net cash provided by capital and related financing activities	<u>360</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Investments increased by	(12,123)
Receipts of interest and dividends	<u>32,134</u>
Net cash provided by investing activities	<u>20,011</u>

Net increase(decrease) in cash	7,764
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Cash and cash equivalents, beginning	<u>215,147</u>
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Cash and cash equivalents, ending	<u><u>\$ 222,911</u></u>
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ST. CLAIR SHORES HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended December 31, 2006

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**RECONCILIATION OPERATING INCOME(LOSS)
TO NET CASH PROVIDED BY OPERATING
ACTIVITIES:**

Operating income(loss)	\$(1,265,480)
Adjustments to reconcile operating (loss) to net cash provided(used) by operating activities:	
Depreciation	400,405
Bad debt allowance	3,475
Adjustment	(13,116)
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	(2,843)
Prepaid expenses	1,956
Inventories	(1,863)
Increase (decrease) in liabilities:	
Accounts payable	(14,673)
Accrued wage/payroll taxes payable	10,945
Accrued compensated absences	1,175
Accounts payable-PILOT	5,789
Other current liabilities	(4,781)
Deferred revenues	<u>299</u>
Net cash (used) by operating activities	<u><u>\$(878,712)</u></u>

See notes to financial statements

ST. CLAIR SHORES HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2006
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of St. Clair Shores Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

The Reporting Entity

St. Clair Shores Housing Commission is a component unit of the City of St. Clair Shores. The Housing Commission is a Public Housing Agency created by the City of St. Clair Shores on December 21, 1964, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of St. Clair Shores Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3037, the Housing Commission constructed, maintains and operates 250 units of subsidized housing in St. Clair Shores, Michigan. The Housing Commission manages a Housing Choice Voucher program of subsidies for 90 qualifying low-income residents for rental housing. The Housing Commission receives an annual operating subsidy determined under a performance formula for units owned by the Housing Commission and under the Housing Choice Voucher program the Housing Commission receives a HAP allocation in addition to administrative fees based on the number of households it assists.

Fund Financial Statements

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the balance sheets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net asset components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, St. Clair Shores Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds.

Cash and Investments

For the purpose of the Statement of Net Assets, "cash and cash equivalents" includes all demand, savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less. For the purpose of the Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value except for short-term U.S. Treasury obligations, if any, with a remaining maturity at the time of purchase of one year or less. Those investments, if any, are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Note 2.

Short-term Interprogram Receivables/Payables

During the course of operations, numerous transactions occur within individual programs that may result in amounts owed between these programs. Offsetting interprograms are eliminated for financial statement presentation.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission adopts a formal operating budget each year for its operating programs and on a project length basis for its capital expenditures which are approved by the Board of Commissioners and submitted to the Department of Housing and Urban Development for their approval, if required.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Inventories

Inventories are valued at average cost, and consist of expendable supplies held for consumption. The cost of inventories are recorded as expenditures when consumed, rather than when purchased.

Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) is as follows:

In the financial statements, capital assets purchased or acquired with an original cost of \$500 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets are recorded as an allocated expense depending on the program where the asset is shown, in the Statement of Revenues, Expenses and Changes in Net Assets, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated

useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	40 years
Building improvements	15 years
Equipment - dwelling	7 years
Equipment - administration	3 - 7 years

Compensated Absences

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation leave: An employee shall be entitled to payment for vacation and holidays not previously used or paid. Employees shall be encouraged to take their vacation annually.
- * Sick leave: Any sick days accumulated subsequent to July 1, 1976, shall be paid one hundred percent (100%) to the employee on his termination from the Housing Commission for any reason.

All unused sick leave days accumulated prior to June 30, 1976, shall be paid upon the employee's retirement or to his/her estate in case of his/her death. For computation of payment for unused sick leave days, a maximum of two hundred (200) days shall be used. Unused sick leave days within the two hundred (200) day limit will be paid one hundred percent (100%) on retirement or to his/her estate in case of death. Fifty percent (50%) of unused sick leave days shall be paid in cash to an employee upon separation from service.

- * Personal leave: Effective July 1, 1980, three (3) sick leave days can be used for personal business. These days are not accumulative.

The amount of accumulated benefits at December 31, 2006, was \$27,857, and is recorded as a liability in the applicable funds.

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets, net of related debt - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. The Housing Commission had no related debt.
- b. Unrestricted net assets - all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services. Amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested capital assets rather than unrestricted net assets.

Non-operating revenues and expenses are those that are not operating in nature.

Interfund Transfers

For the purposes of the Statement of Revenues, Expenses and Change in Net Assets, all interfund transfers between individual programs, if any, have been eliminated.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan City, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: DEPOSITS AND INVESTMENTS

The Housing Commission maintains cash and investment accounts in the Low Rent Program and Housing Choice Voucher funds. Landlord checks are processed through the Housing Choice Voucher account. All other receipts and disbursements are processed through the Low Rent Program accounts.

Deposits

The Housing Commission's policies regarding deposits of cash are discussed in Note 1. The table presented below is designed to disclose the level of custody credit risk assumed by the Housing Commission based upon how its deposits were insured or secured with collateral at December 31, 2006. The categories of credit risk are defined as follows:

Category 1 - Insured by FDIC or collateralized with securities held by the Housing Commission (or public trust) or by its agent in its name.

Category 2 - Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Housing Commission's name.

Category 3 - Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Housing Commission's name; or collateralized with no written or approved collateral agreement.

	<u>Bank Balance</u>	<u>Custody Credit Risk</u>			<u>Total Carrying Value</u>
		<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	
Demand deposits	<u>\$223,351</u>	<u>\$223,351</u>	<u>\$</u>	<u>\$</u>	<u>\$ 222,711</u>

Investments

The Housing Commission's policies and applicable laws regarding investments are discussed in Note 1. The table presented below is designed to disclose the level of market risk and custody credit risk assumed by the Housing Commission (or public trust) based upon whether the investments are insured or registered and upon who holds the security at December 31, 2006. The categories of credit risk are defined as follows:

Category 1 - Insured or registered with securities held by the Housing Commission or its agent in the Housing Commission's name.

Category 2 - Uninsured and unregistered with securities held by counterparty's trust department or agent in the Commission's name.

Category 3 - Uninsured and unregistered with securities held by the counterparty or by its trust department or agent but not in the Commission's name.

	<u>Custody Credit Risk</u>			<u>Carrying Amount</u>	<u>Fair Value</u>
	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>		
Treasury Notes	\$ 500,000	\$	\$	\$ 500,000	\$ 500,000
Certificates of deposits	<u>434,177</u>	<u></u>	<u></u>	<u>434,177</u>	<u>434,177</u>
	<u>\$ 934,177</u>	<u>\$</u>	<u>\$</u>	<u>\$ 934,177</u>	<u>\$ 934,177</u>

A reconciliation of cash as shown on the combined statement of net assets is as follows:

Cash on hand	\$ 200
Carrying amount of deposits	222,711
Investments	<u>934,177</u>
Total	<u>\$1,157,088</u>
Cash and investments:	
Enterprise activities	\$1,157,729
Enterprise activities - reconciling items	383
Enterprise activities - checks written in excess of deposits	<u>(1,024)</u>
Total	<u>\$1,157,088</u>

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At December 31, 2006, the receivables were \$4,746 with \$3,819 estimated as uncollectible. Bad debt expense was \$8,223.

Accounts Receivables/Payables - HUD

Amounts due from HUD represents the amounts not advanced yet for actual expenses of the programs financed. Balances at December 31, 2006 were as follows:

Capital Fund Program	<u>\$ 20,279</u>
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Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Low Rent Program	\$ 70,892	Capital Fund Program	\$ 19,563
		Housing Choice Voucher Program	<u>51,329</u>
	<u>\$ 70,892</u>		<u>\$ 70,892</u>

The capital fund program transferred \$55,903 to the Low Rent Program during the fiscal year ended December 31, 2006 and the Low Rent Program transferred \$7,100 to the Housing Choice Voucher Program.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

	<u>Balance 12/31/05</u>	<u>Additions/ Transfers</u>	<u>Retirements/ Transfers</u>	<u>Balance 12/31/06</u>
Low Rent Program				
Land	\$ 526,000	\$	\$	\$ 526,000
Buildings	7,023,857			7,023,857
Furniture, equip. & machinery - dwellings	85,034	649		85,683
Furniture, equip. & machinery - administration	129,777		1,407	128,370
Building improvements	<u>3,154,081</u>	<u>218,784</u>		<u>3,372,865</u>
	10,918,749	<u>\$ 219,433</u>	<u>\$ (1,407)</u>	11,136,775
Less accumulated depreciation	<u>(5,516,440)</u>	<u>\$ (394,303)</u>	<u>\$ 2,391</u>	<u>(5,908,352)</u>
Total	<u>\$5,402,309</u>			<u>\$5,228,423</u>
Capital Fund Program				
Furniture, equip. & machinery - administration	\$ 13,852	\$ 4,073	\$	\$ 17,925
Building improvements	218,784	3,262		222,046
Construction in progress	<u>42,277</u>		<u>(42,277)</u>	
	274,913	<u>\$ 7,335</u>	<u>\$ (42,277)</u>	239,971
Less accumulated depreciation	<u>(2,546)</u>	<u>\$ (6,103)</u>	<u>\$ 2,430</u>	<u>(6,219)</u>
Total	<u>\$ 272,367</u>			<u>\$ 233,752</u>
Combined Totals				<u><u>\$5,462,175</u></u>

NOTE 5: OTHER INFORMATION**A. Pension Plan**

St. Clair Shores Housing Commission participates in St. Clair Shores' pension plan, the Municipal Employees' Retirement System, (MERS). MERS is a Defined Benefit Program which operates within the Michigan Department of Management and Budget, Bureau of Retirement Systems. The pension covers all eligible full-time employees and requires a minimum contribution by the employee. At

December 31, 2005, the date of the last available actuarial evaluation, the City's (the Housing Commission is included) termination liability for retirement benefits is \$32,660,062 (employer and employee combined). Valuation assets available to meet this obligation were \$34,262,159. The Housing Commission and employees contributed \$9,514 during the calendar year 2004. The Township (the Housing Commission is included) has thirteen (13) active members, no vested former members, and one (1) retiree and beneficiary. There is an overfunded balance of \$3,379,213 as of December 31, 2004. Statistical information concerning the plan can be obtained from MERS, which is contained in their annual report.

B. Post-Retirement Benefits Other Pensions

The Housing Commission pays the full cost of hospitalization for its retirees under the St. Clair Shores Housing Commission Retirement System. In addition, the Housing Commission agrees to pay full cost of the hospitalization for spouse and dependents. It is understood that the cost of hospitalization shall include the regular Medicare expense for both employee and spouse.

C. Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

D. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

E. Prior Period Adjustments, Equity Transfers and Correction of Errors

Low Rent Program

PYA re: benefits FYE 12/31/05	\$(13,116)
Transfer closed 2003 CFP equity to LRPH	<u>220,417</u>
	<u>\$ 207,301</u>

Capital Fund Program

Transfer closed 2003 CFP equity to LRPH	<u>\$ (220,418)</u>
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NOTE 6: SEGMENT INFORMATION

The Housing Commission maintains one Enterprise Fund that includes three separate programs which provide housing assistance and grant programs. Segment information for the year ended December 31, 2006, was as follows:

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Housing Choice Vouchers</u>
Condensed Statement of net Assets			
Current assets	\$ 1,226,585	\$ 20,279	\$ 58,710
Capital assets	5,228,423	233,752	
Total assets	<u>\$ 6,455,008</u>	<u>\$ 254,031</u>	<u>\$ 58,710</u>
Current liabilities	\$ 219,481	\$ 20,279	\$ 51,929
Noncurrent liabilities	25,071		
Total liabilities	<u>244,552</u>	<u>20,279</u>	<u>51,929</u>
Net assets:			
Invested in capital assets	5,228,423	233,752	
Unrestricted net assets	982,033		6,781
Total net assets	<u>6,210,456</u>	<u>233,752</u>	<u>6,781</u>
Total liabilities and net assets	<u>\$ 6,455,008</u>	<u>\$ 254,031</u>	<u>\$ 58,710</u>
Condensed Statement of Revenues, Expenses, and Changes in Net Assets			
Dwelling and nondwelling rents	\$ 804,938	\$	\$
Depreciation	(394,303)	(6,103)	
Other operating expenses	<u>(1,086,716)</u>	<u>(42,594)</u>	<u>(540,702)</u>
Operating (loss)	<u>(676,081)</u>	<u>(48,697)</u>	<u>(540,702)</u>
Nonoperating revenues:			
Investment earnings	35,334		2,406
Fraud recovery			1,185
Other income	9,388		129
Operating transfers in(out)	48,803	(55,903)	7,100
Operating grants	235,410	98,497	529,900
Capital grants		<u>187,906</u>	
Change in net assets	<u>(347,146)</u>	<u>181,803</u>	<u>18</u>
Prior period adjustments	207,301	(220,418)	
Beginning net assets	<u>6,350,301</u>	<u>272,367</u>	<u>6,763</u>
Ending net assets	<u>\$ 6,210,456</u>	<u>\$ 233,752</u>	<u>\$ 6,781</u>

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Housing Choice Vouchers</u>
Condensed Statement of Cash Flows			
Net cash provided			
(used) by:			
Operating activities	\$ (296,332)	\$ (41,878)	\$ (540,502)
Noncapital financing activities	291,418	41,518	533,169
Capital and related financing activities		360	
Investing activities	<u>17,605</u>	<u> </u>	<u>2,406</u>
Net increase (decrease)	12,691		(4,927)
Beginning cash and cash equivalents	<u>151,510</u>	<u> </u>	<u>63,637</u>
Ending cash and cash equivalents	<u>\$ 164,201</u>	<u>\$ </u>	<u>\$ 58,710</u>

SUPPLEMENTARY INFORMATION

ST. CLAIR SHORES HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
BY PROGRAM

December 31, 2006

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C-3037	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

ASSETS

Current assets:

Cash and cash equivalents	\$ 164,201	\$ 20,279
Accounts receivable-HUD		
Accounts receivable-tenants	4,746	
Allowance for doubtful accounts	(3,819)	
Fraud recovery	4,590	
Allowance for doubtful accounts	(4,590)	
Accrued interest receivable	12,694	
Investments-unrestricted	934,177	
Prepaid expenses	26,669	
Inventories	17,025	
Due from other programs	<u>70,892</u>	
Total current assets	<u>1,226,585</u>	<u>20,279</u>

Capital assets:

Land	526,000	
Buildings	7,023,857	
Equipment	214,053	17,925
Building improvements	<u>3,372,865</u>	<u>222,046</u>
	11,136,775	239,971
Less accumulated depreciation	<u>(5,908,352)</u>	<u>(6,219)</u>
Net capital assets	<u>5,228,423</u>	<u>233,752</u>
Total Assets	<u>\$ 6,455,008</u>	<u>\$ 254,031</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$ 58,710	\$ 222,911
	20,279
	4,746
	(3,819)
	4,590
	(4,590)
	12,694
	934,177
	26,669
	17,025
<u> </u>	<u>70,892</u>
<u>58,710</u>	<u>1,305,574</u>
	526,000
	7,023,857
	231,978
<u> </u>	<u>3,594,911</u>
	11,376,746
<u> </u>	<u>(5,914,571)</u>
<u> </u>	<u>5,462,175</u>
<u>\$ 58,710</u>	<u>\$ 6,767,749</u>

ST. CLAIR SHORES HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
BY PROGRAM (CONTINUED)
December 31, 2006

=====

	C-3037 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS		
Current liabilities:		
Accounts payable	\$ 71,164	\$
Tenant security deposit liability	73,677	
Accrued expenses	31,990	
Deferred revenues	1,118	
Other current liabilities	41,532	716
Due to other programs	<u> </u>	<u>19,563</u>
Total current liabilities	219,481	20,279
Noncurrent liabilities:		
Accrued compensated absences	<u>25,071</u>	<u> </u>
Total liabilities	<u>244,552</u>	<u>20,279</u>
Net Assets:		
Invested in capital assets	5,228,423	233,752
Unrestricted net assets	<u>982,033</u>	<u> </u>
Total net assets	<u>6,210,456</u>	<u>233,752</u>
Total Liabilities and Net Assets	<u>\$6,455,008</u>	<u>\$ 254,031</u>

ST. CLAIR SHORES HOUSING COMMISSION
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND
 CHANGES IN NET ASSETS BY PROGRAM**
 Year Ended December 31, 2006

	C-3037 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 794,084	\$
Nondwelling rent	<u>10,854</u>	<u> </u>
Total operating revenues	<u>804,938</u>	<u> </u>
OPERATING EXPENSES:		
Administration	325,381	28,731
Tenant services	8,008	
Utilities	219,520	
Ordinary maintenance and operation	408,749	13,863
General expenses	107,670	
Housing assistance payments		
Extraordinary maintenance	17,259	
Casualty losses	129	
Depreciation	<u>394,303</u>	<u>6,103</u>
Total operating expenses	<u>1,481,019</u>	<u>48,697</u>
Operating income(loss)	<u>(676,081)</u>	<u>(48,697)</u>
NONOPERATING REVENUES:		
Operating transfer in(out)	48,803	(55,903)
Investment interest income	35,334	
Fraud recovery		
Other income	9,388	
Capital grants		187,906
Operating grants	<u>235,410</u>	<u>98,497</u>
Total nonoperating revenues	<u>328,935</u>	<u>230,500</u>
Change in net assets	(347,146)	181,803
Prior period adjustments, equity transfers and correction of errors	207,301	(220,418)
Net assets, beginning	<u>6,350,301</u>	<u>272,367</u>
Net assets, ending	<u>\$6,210,456</u>	<u>\$233,752</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
 \$	 \$ 794,084
<u> </u>	<u>10,854</u>
 <u> </u>	 <u>804,938</u>
 52,400	406,512
	8,008
	219,520
	422,612
	107,670
488,302	488,302
	17,259
	129
<u> </u>	<u>400,406</u>
<u>540,702</u>	<u>2,070,418</u>
<u>(540,702)</u>	<u>(1,265,480)</u>
 7,100	
2,406	37,740
1,185	1,185
129	9,517
	187,906
<u>529,900</u>	<u>863,807</u>
<u>540,720</u>	<u>1,100,155</u>
18	(165,325)
	(13,117)
<u>6,763</u>	<u>6,629,431</u>
<u>\$ 6,781</u>	<u>\$ 6,450,989</u>

ST. CLAIR SHORES HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
BY PROGRAM

Year Ended December 31, 2006

=====

	C-3037 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from dwelling and nondwelling rents	\$ 802,393	\$
Cash payments to other suppliers of goods and services	(498,491)	(10,378)
Cash payments to employees for services	(550,296)	(31,500)
Cash payments for in lieu of taxes	<u>(49,938)</u>	<u></u>
Net cash (used) by operating activities	<u>(296,332)</u>	<u>(41,878)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Tenant security deposits	3,830	
Operating transfers in(out)	48,803	(55,903)
Due from/to other funds	(6,013)	11,158
Operating grants	235,410	86,263
Fraud recovery		
Other revenue	<u>9,388</u>	<u></u>
Net cash provided by noncapital financing activities	<u>291,418</u>	<u>41,518</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants		187,906
Payments for capital acquisitions	<u></u>	<u>(187,546)</u>
Net cash provided by capital and related financing activities	<u></u>	<u>360</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments increased by	(12,123)	
Receipts of interest and dividends	<u>29,728</u>	<u></u>
Net cash provided by investing activities	<u>17,605</u>	<u></u>
Net increase(decrease) in cash	12,691	
Cash and cash equivalents, beginning	<u>151,510</u>	<u></u>
Cash and cash equivalents, ending	<u>\$ 164,201</u>	<u>\$</u>

Housing Choice Vouchers 14.871	Totals
\$	\$ 802,393
(491,502)	(1,000,371)
(49,000)	(630,796)
	(49,938)
(540,502)	(878,712)
	3,830
7,100	
(5,145)	
529,900	851,573
1,185	1,185
129	9,517
533,169	866,105
	187,906
	(187,546)
	360
	(12,123)
2,406	32,134
2,406	20,011
(4,927)	7,764
63,637	215,147
\$ 58,710	\$ 222,911

ST. CLAIR SHORES HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
BY PROGRAM (CONTINUED)

Year Ended December 31, 2006

=====

C-3037 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
--	---

**RECONCILIATION OF OPERATING INCOME
(LOSS) TO NET CASH PROVIDED BY
OPERATING ACTIVITIES:**

Operating income(loss)	\$(676,081)	\$(48,697)
Adjustments to reconcile operating (loss) to net cash provided(used) by operating activities:		
Depreciation	394,302	6,103
Bad debt allowance	3,475	
Adjustment	(13,116)	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	(2,843)	
Prepaid expenses	1,956	
Inventories	(1,863)	
Increase (decrease) in liabilities:		
Accounts payable	(14,873)	
Accrued wage/payroll taxes payable	10,945	
Accrued compensated absences	1,175	
Accounts payable-PILOT	5,789	
Other current liabilities	(5,497)	716
Deferred revenues	<u>299</u>	
Net cash (used) by operating activities	<u>\$(296,332)</u>	<u>\$(41,878)</u>

Housing Choice Vouchers 14.871	Totals
\$ (540,702)	\$ (1,265,480)
	400,405
	3,475
	(13,116)
	(2,843)
	1,956
	(1,863)
200	(14,673)
	10,945
	1,175
	5,789
	(4,781)
	299
<u>\$ (540,502)</u>	<u>\$ (878,712)</u>

ST. CLAIR SHORES HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended December 31, 2006
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<u>Fiscal</u> <u>Year</u>	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2006	Low Rent Public Housing	14.850	\$ 235,410
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2006	Capital Fund Program	14.872	286,403
	<u>Low Income Public Housing</u> <u>Major - Direct Program</u>		
2006	Housing Choice Vouchers	14.871	<u>529,900</u>
	Total		<u>\$1,051,713</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

ST. CLAIR SHORES HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Year Ended December 31, 2006

=====

FDS Line Item No.		C-3037 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 164,201	\$
100	Total cash	<u>164,201</u>	
	Receivables:		
122	A/R-HUD other projects		20,279
126	A/R-tenants-dwelling rents	4,746	
126.1	Allowance for doubtful accounts	(3,819)	
128	Fraud recovery	4,590	
128.1	Allowance for doubtful accounts- fraud	(4,590)	
129	Accrued interest receivable	<u>12,694</u>	
120	Total receivables, net of allowance for doubtful accounts	<u>13,621</u>	<u>20,279</u>
131	Investments-unrestricted	<u>934,177</u>	
	Other Current Assets:		
142	Prepaid expenses and other assets	26,669	
143	Inventories	17,025	
144	Interprogram due from	<u>70,892</u>	
	Total other current assets	<u>114,586</u>	
150	Total current assets	<u>1,226,585</u>	<u>20,279</u>
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	526,000	
162	Buildings	7,023,857	
163	Furn, equip & mach-dwellings	85,683	
164	Furn, equip & mach-admin.	128,370	17,925
165	Building improvements	3,372,865	222,046
166	Accumulated depreciation	<u>(5,908,352)</u>	<u>(6,219)</u>
160	Total fixed assets, net of accumulated depreciation	<u>5,228,423</u>	<u>233,752</u>
180	Total noncurrent assets	<u>5,228,423</u>	<u>233,752</u>
190	Total Assets	<u>\$ 6,455,008</u>	<u>\$254,031</u>

Housing Choice Vouchers 14.871	Totals
\$ 58,710	\$ 222,911
58,710	222,911
	20,279
	4,746
	(3,819)
	4,590
	(4,590)
	12,694
	33,900
	934,177
	26,669
	17,025
	70,892
	114,586
58,710	1,305,574
	526,000
	7,023,857
	85,683
	146,295
	3,594,911
	(5,914,571)
	5,462,175
	5,462,175
\$ 58,710	\$ 6,767,749

ST. CLAIR SHORES HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended December 31, 2006

=====

FDS Line Item No.		C-3037 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 15,437	\$
321	Accrued wage/payroll taxes payable	29,204	
322	Accrued compensated absences-current portion	2,786	
333	Accounts payable-other government	55,727	
341	Tenant security deposits	73,677	
342	Deferred revenues	1,118	
345	Other current liabilities	41,532	716
347	Interprogram due to	<u> </u>	<u>19,563</u>
310	Total current liabilities	219,481	20,279
	Noncurrent Liabilities:		
354	Accrued compensated absences	<u>25,071</u>	<u> </u>
300	Total liabilities	<u>244,552</u>	<u>20,279</u>
	Net Assets:		
508.1	Invested in capital assets	<u>5,228,423</u>	<u>233,752</u>
508	Total invested in capital assets	5,228,423	233,752
512.1	Unrestricted net assets	<u>982,033</u>	<u> </u>
513	Total Net Assets	<u>6,210,456</u>	<u>233,752</u>
600	Total Liabilities and Net Assets	<u>\$ 6,455,008</u>	<u>\$254,031</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$ 600	\$ 16,037
	29,204
	2,786
	55,727
	73,677
	1,118
	42,248
<u>51,329</u>	<u>70,892</u>
51,929	291,689
<u> </u>	<u>25,071</u>
<u>51,929</u>	<u>316,760</u>
<u> </u>	<u>5,462,175</u>
	5,462,175
<u>6,781</u>	<u>988,814</u>
<u>6,781</u>	<u>6,450,989</u>
<u>\$ 58,710</u>	<u>\$ 6,767,749</u>

ST. CLAIR SHORES HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended December 31, 2006

FDS Line Item No.		C-3037 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 794,084	\$
704	Tenant revenue-other	<u>10,054</u>	
705	Total tenant revenue	804,938	
706	HUD PHA grants	235,410	98,497
706.1	Capital grants		187,906
711	Investment income-unrestricted	35,334	
714	Fraud recovery		
715	Other income	<u>9,388</u>	
700	Total revenue	<u>1,085,070</u>	<u>286,403</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	165,030	19,000
912	Auditing fees	4,000	
914	Compensated absences	1,175	
915	Employee benefit contributions-adm.	106,253	
916	Other operating-administrative	48,923	9,731
	Tenant Services:		
924	Tenant services-other	8,008	
	Utilities:		
931	Water	61,605	
932	Electricity	77,026	
933	Gas	80,889	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	176,026	12,500
942	Ordinary maint & oper-mat'ls & other	35,742	1,363
943	Ordinary maint & oper-contract costs	81,874	
945	Employee benefit contributions	115,107	
	General expenses:		
961	Insurance premiums	43,720	
963	Payments in lieu of taxes	55,727	
964	Bad debt-tenant rents	<u>8,223</u>	
969	Total operating expenses	<u>1,069,328</u>	<u>42,594</u>
970	Excess operating revenue over operating expenses	<u>15,742</u>	<u>243,809</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$ 794,084
	<u>10,854</u>
	804,938
529,900	863,807
	187,906
2,406	37,740
1,185	1,185
<u>129</u>	<u>9,517</u>
<u>533,620</u>	<u>1,905,093</u>
33,000	217,030
	4,000
	1,175
16,000	122,253
3,400	62,054
	8,008
	61,605
	77,026
	80,889
	188,526
	37,105
	81,874
	115,107
	43,720
	55,727
	<u>8,223</u>
<u>52,400</u>	<u>1,164,322</u>
<u>481,220</u>	<u>740,771</u>

ST. CLAIR SHORES HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended December 31, 2006

=====

FDS Line Item No.		C-3037 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
	Other expenses:		
971	Extraordinary maintenance	17,259	
972	Casualty losses-noncapitalized	129	
973	Housing assistance payments		
974	Depreciation expense	<u>394,303</u>	<u>6,103</u>
	Total other expenses	<u>411,691</u>	<u>6,103</u>
900	Total expenses	<u>1,481,019</u>	<u>48,697</u>
	Excess (deficiency) of operating revenue over(under) expenses before other financing sources (uses)	(395,949)	237,706
	Other Financing Sources(Uses)		
1001	Operating transfers in (out)	<u>48,803</u>	<u>(55,903)</u>
1000	Excess (deficiency) of operating revenue over(under) expenses	(347,146)	181,803
1103	Beginning Net Assets	6,350,301	272,367
1104	Prior period adjustments, equity transfers and correction of errors	<u>207,301</u>	<u>(220,418)</u>
	Ending Net Assets	<u>\$ 6,210,456</u>	<u>\$233,752</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
	17,259
	129
488,302	488,302
<u> </u>	<u>400,406</u>
<u>488,302</u>	<u>906,096</u>
<u>540,702</u>	<u>2,070,418</u>
(7,082)	(165,325)
<u>7,100</u>	<u> </u>
18	(165,325)
6,763	6,629,431
<u> </u>	<u>(13,117)</u>
<u>\$ 6,781</u>	<u>\$ 6,450,989</u>

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
St. Clair Shores Housing Commission
St. Clair Shores, Michigan

I have audited the financial statements of the business-type activities of St. Clair Shores Housing Commission, Michigan, (Housing Commission) as of and for the year ended December 31, 2006, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated March 29, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*
St. Clair Shores Housing Commission
Page Two

Compliance and Other Matters (continued)

compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated March 29, 2007.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sandy E. Vandette, CPA, PC

March 29, 2007

**Report on Compliance with Requirements
Applicable To Each Major Program and
Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Housing Commissioners
St. Clair Shores Housing Commission
St. Clair Shores, Michigan

Compliance

I have audited the compliance of St. Clair Shores Housing Commission, Michigan, (Housing Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance with OMB Circular A-133
St. Clair Shores Housing Commission
Page Two

Compliance (continued)

In my opinion, the Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The management of the Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sony S. Auditt, CPA

March 29, 2007

ST. CLAIR SHORES HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2006
=====

A. Summary of Audit Results

Financial Statements

- | | |
|--|-------------|
| 1. Type of Auditor's Report issued: | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weakness identified | No |
| b. Reportable condition identified that is not a material weakness | No |
| 3. Noncompliance material to financial statements: | No |

Federal Awards

- | | |
|--|-------------|
| 1. Internal control over major programs: | |
| a. Material weakness identified | No |
| b. Reportable condition that is not a material weakness | No |
| 2. Type of auditor's report issued on compliance for major programs | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 | No |
| 4. Identification of major programs: | |

<u>CFDA Number</u>	<u>Federal Program</u>	<u>Amount Expended</u>	<u>Major Program</u>	<u>Compliance Requirement</u>	<u>Questioned Costs</u>	<u>Audit Finding</u>
14.850	Low Rent Public Housing	\$ 235,410	No	O	N/A	N/A
14.872	Capital Fund Program	286,403	No	O	N/A	N/A
14.871	Housing Choice Vouchers	<u>529,900</u>	Yes	O	N/A	N/A
Total		<u>\$1,051,713</u>				

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Housing Commission was determined to be a low-risk auditee.

ST. CLAIR SHORES HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
December 31, 2006

=====

B.	Financial Statement Findings	None
C.	Federal Award Findings and Questioned Costs	None

ST. CLAIR SHORES HOUSING COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
December 31, 2006

=====

NONE

ST. CLAIR SHORES HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
DECEMBER 31, 2006

=====

<u>Account Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
-----------------------	---------------------	--------------	---------------

LOW RENT PROGRAM:

There were no adjusting journal entries.

ST. CLAIR SHORES HOUSING COMMISSION

INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

DECEMBER 31, 2006

ST. CLAIR SHORES HOUSING COMMISSION
CONTENTS
DECEMBER 31, 2006

	<u>Page</u>
Independent Auditors' Report on Communications With the Audit Committee/Board of Commissioners	1-2
Independent Auditors' Report on Management Advisory Comments	3
Management Advisory Comments	4-6
Adjusting Journal Entries	7

**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
St. Clair Shores Housing Commission

I have audited the financial statements of the St. Clair Shores Housing Commission ("Housing Commission") as of and for the year ended December 31, 2006, and have issued my report, thereon, dated March 29, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and my responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). There were no audit adjustments that were necessary to make.

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There were no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

Barry E. Tardiff, CPA, PC

March 29, 2007

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
St. Clair Shores Housing Commission

I have audited the financial statements of the St. Clair Shores Housing Commission ("Housing Commission") as of and for the year ended December 31, 2006, and have issued my report, thereon, dated March 29, 2007. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to us by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, PC

March 29, 2007

ST. CLAIR SHORES HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
December 31, 2006

=====

Housing Choice Voucher Program Tenant File Test

We started with the 8th tenant file and tested every 15th one after that from an Ad-hoc Tenant Report provided by the St. Clair Shores Housing Commission. We selected 6 files from a population of 88 tenant files to choose from. We looked for the following documentation in the files:

	<u># of Exceptions</u>
a. Form HUD-50058	0
b. Privacy Act Notice	0
c. Proper Verification of Income	0
d. Proper Verification of Expenses	1
e. Proper Verification of Assets	0
f. Inspection Report	0
g. Lease	0
h. Application	0
i. Copy of Photo I.D.	1
j. Copy of Proof of Social Security Card	0
k. Copy of Birth Certificate	2
l. Annual Review	0
m. Worksheet for HUD-50058	0
n. Notice of Rent Adjustment	0
o. Criminal Background Check	1
p. Declaration of 214 Status	1
q. Lead Based Paint Disclosure	0
r. Check for previously living in Public Housing	1
s. Request for Tenancy Approval	0
t. Voucher	0
u. HAP Contract	0
v. HAP Tenancy Addendum	0
w. Rent Reasonableness Test	0
x. Inspection-Life Threatening Corrections made less than 24 hours	1
y. Inspection-Corrections made less than 30 days or by granted extension	0
z. Proper action taken if x or y violated	0
aa. Family Compilation Review	<u>1</u>
	<u>9</u>

Out of a possible 162, there were 9 exceptions from this test. This represents a 5.56% exception rate.

ST. CLAIR SHORES HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
(Continued)

December 31, 2006

=====

Housing Choice Voucher Program Tenant File Test (Continued)

The following is a short summary of exceptions:

<u>File</u>	<u>Client #</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>
1	V-010-0007-01									
2	V-010-0094-01			x						
3	000001	x								
4	V-010-0069-01		x							
5	V-010-0090-01								x	
6	V-010-0059-01								x	
Number of Hits		<u>1</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>	<u>0</u>
% of Hits		<u>17%</u>	<u>17%</u>	<u>17%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>33%</u>	<u>0%</u>

Legend

1. No proper evidence that a criminal background check was conducted, or it was in the tenant files. It may not be kept in the tenant files unless an appeal or hearing is pending.
2. Check for eviction from federal housing not conducted.
3. Proper Income/Expense/Asset Verification not conducted or is incorrect.
4. Form HUD-50058 could not be located in the tenant files.
5. HUD Form 9886, Release of Information/Privacy Act Notice not in the file or it was not properly completed for the fiscal year reviewed.
6. Social Security Number not verified with required documentation.
7. The Housing Commission could not locate the file.
8. The Housing Commission could not locate missing documents.
9. The tenant was not eligible to participate in the program.

It is recommended that the St. Clair Shores Housing Commission correct the documentation in all tenant files where possible. It should be noted that the exception rate was extremely low for this program. We commend the St. Clair Shores Housing Commission staff on the job they are doing documenting the tenant files.

ST. CLAIR SHORES HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
(Continued)

December 31, 2006

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Low Rent Public Housing Program Tenant File Test

We selected the 23rd tenant on each of the first two pages of an Ad-hoc Tenant Report provided by the St. Clair Shores Housing Commission to test. We selected 2 files from a population of 250 tenant files to choose from. We looked for the following documentation in the files:

	<u># of Exceptions</u>
a. Form HUD-50058	0
b. Privacy Act Notice	0
c. Proper Verification of Income	0
d. Proper Verification of Expenses	0
e. Proper Verification of Assets	0
f. Inspection Report	0
g. Lease	0
h. Application	0
i. Copy of Photo I.D.	0
j. Copy of Social Security Number Verification	0
k. Copy of Birth Certificate	0
l. Annual Review	0
m. Worksheet for HUD-50058	0
n. Notice of Rent Adjustment	0
o. Criminal Background Check	1
p. Declaration of 214 Status	0
q. Lead Based Paint Disclosure	0
r. Check for previously living in Public Housing	0
s. Family Composition Review	<u>0</u>
	<u>1</u>

Out of a possible 38, there was 1 exception from this test. This represents an exception rate of 2.63%.

We recommend that the Housing Commission review all of the files to ensure that there are no criminal background checks in the tenant files. It should be noted that the exception rate for this program was very low. We commend the St. Clair Shores Housing Commission staff on the job they are doing documenting the tenant files.

ST. CLAIR SHORES HOUSING COMMISSION

ADJUSTING JOURNAL ENTRIES

December 31, 2006

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<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
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There were no audit adjusting journal entries.